



**Investment Office**

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**AGENDA ITEM 7**

**TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE**

- I. SUBJECT:** Real Estate – Revision of Policy on Equity Real Estate
- II. PROGRAM:** Real Estate
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the revised Statement of Investment Policy for Equity Real Estate

**IV. ANALYSIS:**

On September 10, 2007, the Investment Committee (IC) approved the Strategic Plan for CalPERS Real Estate portfolio, which contained a number of findings and recommendations to be implemented for the Fund's real estate investments in the coming 5 to 10 years. One of the Plan's recommendations approved by the IC included adopting a portfolio benchmark which represents a blend of two Real Estate indices: 1) the National Council of Real Estate Investment Fiduciaries Index "(NCREIF") Property Index (NPI), and 2) the Financial Times Stock Exchange "(FTSE") European Public Real Estate Association "(EPRA") National Association of Real Estate Investment Trusts "(NAREIT") Global Total Return Real Estate Index (also known as the "FTSE EPRA NAREIT Global Total Return Real Estate Index").

The overall benchmark would be 90% weighted to NPI + 200 basis points and 10% to the FTSE EPRA NAREIT Global Total Return Real Estate Index. The 200 basis point premium added to NCREIF reflects a blended overall target for the real estate portfolio assuming an equal allocation between Core, Value-Add, and Opportunistic strategies. The 200 basis point premium on the NPI was built-up in the following manner:

Strategy	Benchmark	Weight
Core	NPI	33.3%
Value-Add	NPI + 200 bps	33.3%
Opportunistic	NPI + 400 bps	33.3%
Blended Total	NPI + 200	100%

The FTSE EPRA NAREIT Global Total Return Real Estate Index would be the benchmark for the publicly traded portion of the portfolio. The 10% weight assigned would represent the approximate holding percentage of the real estate portfolio that is anticipated to be in real estate public market securities. This new blended benchmark will be more closely aligned with the current and targeted real estate portfolio which includes assets across the risk spectrum, in the domestic and international markets, and a 90% weight of private and 10% weight of public market holdings. Staff has worked with PCA Real Estate Advisors, Inc. (PCA RE) to study and develop an appropriate performance measurement tool for the Real Estate portfolio.

Staff recommends revising Section III.B. of the *Statement of Investment Policy for Equity Real Estate* to allow for the measurement of portfolio performance to this blended benchmark (see Attachment 1). The definition of the FTSE EPRA NAREIT Global Total Return Real Estate Index has also been added to Asset Glossary: Real Estate.

This policy has not been revised to conform to the approved new investment policy template. Staff wanted to ensure that the substantive changes proposed herein will not be confused with proposed changes being presented at the October Policy Subcommittee meeting, in connection with the Policy Review and Consolidation Project. The revised policies will utilize the new investment policy template.

PCA RE concurrence letter regarding the revised benchmark is attached (Attachment 2).

## **V. STRATEGIC PLAN:**

This item supports Goal VIII to manage the risks and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second to minimize and stabilize contributions.

## **VI. RESULTS/COSTS:**

There are no costs associated with this item.

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